

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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October 15, 2008

Jack Joseph, Deputy Executive Director
Gateway Cities Council of Governments
16401 Paramount Blvd.
Paramount, California 90723

Re: Gateway Cities Council of Governments
Follow-up Audit and
Audit of Indirect Cost Allocation Plans for FY 2006/07 and 2007/08
File No: P1190-0629

Dear Mr. Joseph:

We have completed a follow-up audit on audit findings detailed in our prior audit report P1190-0522 dated October 31, 2005. A brief summary of the prior audit findings, recommendations, and conclusions and the results of the follow-up audit are listed in Section I of this report. In addition, we audited the Gateway Cities Council of Governments' (GCCOG) Indirect Cost Allocation Plans (ICAP) for the fiscal years ended June 30, 2007 and June 30, 2008 to determine whether the ICAPs were presented in accordance with Title 2, Part 225 of the Code of Federal Regulations (CFR) (formerly the Office of Management and Budget (OMB) Circular A-87) and the Department of Transportation's Local Programs Procedures (LPP) 04-10. The GCCOG management is responsible for the fair presentation of the ICAPs. The GCCOG proposed indirect cost rates of 54.00% and 138.43% of total direct salaries and wages plus fringe benefits for fiscal years ended June 30, 2007 and June 30, 2008, respectively. The results of the ICAP audit are detailed in Section II of this report.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the GCCOG. Therefore, we did not audit and are not expressing an opinion on the GCCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records

reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the GCCOG, as well as evaluating the overall presentation.

The scope of the audit was limited to select financial and compliance activities. The audit included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAPs as of February 9, 2007. The audit also consisted of a recalculation of the ICAPs, a comparison of the ICAPs to single audit reports for the fiscal years ended June 30, 2005 and 2006, inquiries of GCCOG personnel, and reliance on audit work performed by the Southern California Association of Governments (SCAG). Financial management system changes subsequent to February 9, 2007 were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations relative to the ICAP audit take into consideration the GCCOG's response dated September 6, 2007 to our draft report. Our findings and recommendations, a summary of the GCCOG's response and our analysis of the response relative to the ICAP audit are detailed in Section II of this report. See Attachment I for a copy of the GCCOG's response.

This report is intended solely for the information of the GCCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited. If you have any questions, please contact Barbara Nolan, Auditor, at (916) 323-7880 or Teresa Greisen, Audit Manager, at (916) 323-7910.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments: Section I
Section II
Attachment I
Attachment II

c: Kirk Cessna, District 7
Brenda Bryant, FHWA
Sue Kiser, FHWA
Gary Buckhammer, HQ Accounting
Albert Soares, HQ Project Implementation
Rihui Zhang, HQ Project Implementation
Garth Hopkins, Regional and Interagency Planning
Hasan Ikhrata, Southern California Association of Governments

SECTION I OF AUDIT REPORT P1190-0629
RESULTS OF FOLLOW-UP ON PRIOR AUDIT FINDINGS OF AUDIT P1190-0522

Finding 1

Timesheets did not reflect actual project hours, as employees estimated the percentage of time spent on funds/projects. As a result, direct and indirect labor costs were not supported and the indirect cost allocation plans for fiscal years 2004 and 2005 were not approved.

Recommendation

We recommended that GCCOG ensure that all employees record actual project hours on timesheets and refund the Department and/or the Southern California Association of Governments (SCAG) for any indirect costs billed to and reimbursed by the Department and/or SCAG for fiscal years 2004 and 2005.

Audit Follow-up

Our tests of labor costs for fiscal year 2007 showed that the time recorded on employee timesheets appeared to be actual hours and not estimated percentages. We also reviewed audit work performed by SCAG on the GCCOG and found that no indirect costs were paid to GCCOG for either fiscal year 2004 or 2005. We consider this finding resolved.

Final Recommendation

Finding resolved.

Finding 2

Labor hours and rates billed were not based on actual costs incurred and did not agree to labor costs recorded in the general ledger due to the following:

- Hours recorded on timesheets were based on percentages.
- Salary expenses were applied to the percentages charged on one or an average of both semi-monthly timesheet percentages.
- In order to recover vacation expense, hourly billing rates were calculated based on 2,000 hours, instead of 2,080 total compensated hours, but given the GCCOG's method of recording time in the general ledger, the indirect labor account may already include vacation expense and paid-time off costs may be over-recovered through the application of both the indirect cost rate and the hourly rate billed.
- The GCCOG miscalculated one part-time employee's hourly rate.
- SCAG was billed auto allowance expense as a fringe benefit when the GCCOG included the auto allowance in the indirect cost pool, which may result in over-recovery of auto allowance costs.

Recommendation

We recommended that GCCOG reimburse unsupported costs to SCAG and other funding agencies as appropriate.

Audit Follow-up

SCAG initially calculated the overpayment due from GCCOG at \$43,805, for which GCCOG issued a check to repay SCAG.

We reviewed audit work performed by SCAG on GCCOG and found that in each of the three years SCAG reviewed, GCCOG was over-paid for labor hours that were not adequately supported. SCAG reduced the allowable labor costs to account for the unsupported labor, but SCAG also allowed for additional hours for which the GCCOG did not bill. We determined that in at least four instances the additional hours were worked prior to the start date of the contract, and are unallowed. Because of this discrepancy, we allowed only for supported hours up to the amount for which GCCOG originally billed. We made additional minor adjustments to account for variances in paid time off rates, unallowed auto allowance in fiscal year 2006 and prorated fringe benefits relative to the reduced allowable hours. Finally, we accounted for the fact that the match amount required to be paid by the GCCOG was lowered due to the unsupported labor costs.

Based on the above, we found that the GCCOG was overpaid \$33,482.37. Please see Attachment II for a summary of the overpayment calculation. However, GCCOG reimbursed SCAG \$43,805 for the over-billing; therefore, SCAG should return the over-reimbursed amount of \$10,322.63 ($43,805 - 33,482.37$) to GCCOG.

Final Recommendation

SCAG should reimburse GCCOG \$10,322.63.

SCAG should reimburse the Department for the unsupported GCCOG costs. SCAG should reconcile the payments made to GCCOG to the amounts billed to and reimbursement by the Department for GCCOG costs to determine the appropriate amount to reimburse the Department. SCAG should provide the schedule of this reconciliation and supporting documentation to the Department.

Finding 3

Direct and indirect costs were not consistently segregated. In addition, the same types of costs from the same vendor were recorded in different accounts.

Recommendation

We recommended that the GCCOG establish procedures to ensure accurate and consistent segregation and recording of direct and indirect costs.

Audit Follow-up

Through our testing of costs for the 2006/07 and 2007/08 ICAPs, we identified numerous instances of the GCCOG failing to consistently segregate direct and indirect costs. Additionally, we found that labor costs for the same employee were charged to two different accounts. We consider this finding unresolved. Please refer to Findings 1 and 2 of Section II of this report.

Final Recommendation

The finding remains.

Finding 4

The GCCOG allocated labor costs for a contracted employee to projects when the time worked on the projects was based on estimates. Additionally, the GCCOG reimbursed half of the cost of an employee working within the Los Angeles County Metropolitan Transportation

Authority Board (MTA) on issues relating to GCCOG and MTA, but did not receive timesheets for the MTA employee to substantiate the work performed by the employee. If the employee worked on issues relating to MTA or the GCCOG Board, then the employee cost is unallowed.

Recommendation

We recommended that the GCCOG establish procedures to ensure all time, whether incurred as a GCCOG or contracted employee, is supported by timesheets reflecting actual project hours worked. In addition, time relating to the Board or reimbursed by others should not be included in the indirect cost pool.

Audit Follow-up

We sampled labor costs for two contracted employees and found that labor was adequately supported by timesheets. We found that the labor costs for the contracted employee working as an assistant to an MTA Board member, and whose salary is reimbursed 50 percent (50%) by the MTA, were not budgeted in the indirect cost pool. We consider this finding resolved.

Final Recommendation

Finding resolved.

Finding 5

The GCCOG relied heavily on the non-audit services (including assistance with the bank reconciliation) provided by the GCCOG Independent Accountant who performs the GCCOG's annual audit and single audit, which may create an impairment to the independence of the Independent Accountant.

Recommendation

We recommended that the GCCOG hire a separate Independent Accountant for the performance of the annual financial statement and single audit. The GCCOG should also consider having a non-check signing board member reconcile or approve the bank statement reconciliations.

Audit Follow-up

We were informed by GCCOG staff that the Independent Accountant did not reconcile bank statements. However, we did find that the Certified Public Accountant (CPA) firm continues to provide both non-audit and audit services that require certain safeguards to be implemented in order to avoid the appearance of impaired independence. This finding is unresolved. Please refer to Finding 3 of Section II of this report.

Final Recommendation

The finding remains.

Finding 6

An agreement for consultant services was vague and did not specify the contract end date or the work to be performed.

Recommendation

We recommended that the GCCOG ensure the adequacy of contractual agreements, including the description of the services to be provided, the estimated time required and a performance period.

Audit Follow-up

No agreement was in place between the GCCOG and its CPA firm. This finding is unresolved. Please refer to Finding 3 of Section II of this report.

Final Recommendation

The finding remains.

Finding 7

Unallowable costs were included in the indirect cost pool, including travel costs of the Executive Director and Board Members.

Recommendation

We recommended that the GCCOG establish procedures to ensure the correct coding and recording of expenditures. The GCCOG should establish unallowable indirect cost accounts to ensure the exclusion of unallowable indirect costs from the indirect cost pool in the future.

Audit Follow-up

We identified several instances of unallowable costs being coded indirectly, including Executive Director and Board Member travel. This finding is unresolved. Please refer to Finding 1 of Section II of this report.

Final Recommendation

The finding remains.

SECTION II OF AUDIT REPORT P1190-0629

ICAP AUDIT RESULTS – P1190-0629

Based on audit work performed, the GCCOG's ICAP for the fiscal year ended June 30, 2007 was not presented in accordance with 2 CFR 225 and LPP 04-10, as the indirect cost pool contained unallowable costs. Specifically, it included multiple years' amortization payments instead of only the current year's cost. However, subsequent to our audit, the GCCOG informed the Department that it does not intend to claim indirect costs for fiscal year 2006/07. Therefore, the 2006/07 ICAP is withdrawn and the rate is unapproved.

Based on audit work performed, the GCCOG's ICAP for the fiscal year ended June 30, 2008 was not presented in accordance with 2 CFR 225 and LPP 04-10. Specifically, the carry-forward amount was improperly calculated and the actual amount of indirect costs incurred during fiscal year 2006 could not be determined with the information provided. Further, GCCOG stated that it did not expect to receive any Federal funding during fiscal year 2008 and did not intend to apply an indirect cost rate to any projects. Therefore, the 2007/08 ICAP is withdrawn and the rate is unapproved.

Through the course of our audit work, we identified a number of weaknesses in the GCCOG's accounting and internal control systems that require attention. Our findings, recommendations, GCCOG's response and our analysis of the response are summarized below. Please see Attachment I for a copy of the GCCOG's response.

Audit Findings

Finding 1

Direct, indirect and unallowable costs are not consistently segregated despite the accounting system's capability to do so. Specifically, of the 39 sampled transactions, we found 20 instances where the costs were coded and posted to the accounting system as indirect instead of either direct or unallowable costs. The specific instances and relevant regulation citations are enumerated below.

- a) Media consultant providing public relations services (2 instances); 2 CFR 225, Appendix B, #1d states, in part, that allowable public relations costs are those generally associated with specific awards or activities necessary as part of a Federal award. Costs that are specific to Federal awards should be charged directly and not included in the indirect cost pool.
- b) Special assistant on loan from the City of Bellflower working on Metropolitan Transportation Authority (MTA) grants (2 instances); Accounting services rendered in connection with specific grants (1 instance); Engineering services rendered in connection with specific projects (2 instances); Printing costs for field reports associated with specific projects (1 instance); 2 CFR 225, Appendix A, section E1 defines direct costs as those that can be identified with a particular final cost objective. Costs incurred in connection with specific projects should be charged directly and excluded from the indirect cost pool.
- c) Various food items provided at an informational staff meeting (1 instance); 2 CFR 225, Appendix B, #27 states in part, that the cost of meals is allowable for meetings

where the primary purpose is the dissemination of technical information. The primary purpose of an informational staff meeting is not the dissemination of technical information and the cost of meals provided at such meetings are unallowable.

- d) Legal services rendered in connection with specific grants and/or Board-related matters (5 instances); and Travel costs associated with a specific project and travel costs of the Executive Director and/or Board members (2 instances); 2 CFR 225, Appendix A, section E1 defines direct costs as those that can be identified with a particular final cost objective. Additionally, Appendix B, #19(a) states in part, that expenses of a local governmental body are unallowable. The legal services provided in connection with particular grants and travel costs incurred in connection with a specific project should be charged directly. The legal services provided in connection with Board-related matters and the travel costs of the Executive Director and Board members should be excluded from the indirect cost pool.
- e) Recording and timing materials used in connection with Board meetings (2 instances); 2 CFR 225, Appendix B, #19(a)(2) states in part, that expenses of a local governmental body are unallowable. Materials used for Board-related meetings are unallowable costs and should be excluded.
- f) Travel costs for a non-GCCOG employee (1 instance); 2 CFR 225, Appendix B, #12(a) states in part, that donations made by the governmental unit, regardless of the recipient, are unallowable. Covering the travel costs of a non-employee is considered a donation and is unallowable.
- g) Equipment used in connection with Board meetings (1 instance); 2 CFR 225, Appendix B, #15(b)(5) states in part, that equipment and other capital expenditures are unallowable as indirect costs. Additionally, Appendix B, #19(a)(2) states in part, that expenses of a local governmental body are unallowable. If allowable, equipment should be excluded from the indirect pool, but depreciation or use allowance may be charged indirectly. Equipment used in connection with Board-related activities is unallowable and should be excluded.

In addition to the above-mentioned costs, we also found that one labor cost pool included both direct and indirect costs. The GCCOG is funded primarily by dues paid by all its member cities, but it also receives additional monetary contributions from its member cities that are affected by the I-710 project. These additional funds are tracked under fund account code 005 and may be used to pay general overhead costs, including labor. However, the labor charged under the 005 fund contains both direct and indirect costs, but the costs were entirely coded as indirect. 2 CFR 225, Appendix E, section A1, states in part, that a cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost. Direct and indirect labor must be segregated and charged accordingly.

Similar circumstances as these were cited as findings in our initial audit report dated October 31, 2005 and are summarized in the Follow-up Findings 3 and 7 of Section I of this report. We recommended that the GCCOG establish procedures to ensure accurate and consistent segregation of direct and indirect costs. Our current audit found that appropriate procedures have not been implemented. The GCCOG is a small organization with inadequate segregation of duties. The same staff person responsible for coding invoices is also

responsible for conducting periodic reviews of the expenditure report to identify and correct coding errors. A key internal control activity is to ensure adequate segregation of duties between performance and review of each task.

Recommendation

We again recommend that the GCCOG establish procedures to ensure the accurate and consistent segregation of direct, indirect and unallowed costs.

GCCOG's Response

The GCCOG agrees to part, but not all, of the finding. See Attachment I for GCCOG's complete response.

Analysis of Response

The GCCOG agrees in part with the finding, but makes no reference to the recommendation. Although the GCCOG states that the coding of costs were consistent with the prior year approved ICAP, Audits and Investigations (A&I) noted that several of the same findings were identified in the prior audit report. Additionally, not all the same accounts were tested during the prior year.

While the GCCOG does not agree that the audio-visual (AV) items are equipment (described in (g) above), as defined in 2 CFR 225, it specifically stated that it was an improvement to real property, the cost of which would be recovered by annual payments instead of increased rental costs. The AV equipment, installed at the request of the GCCOG, is a tenant improvement that increased the value of real property, and is a capital expenditure as defined in 2 CFR 225, Appendix B #15(a)(1). Whether the AV items were identified as "equipment" or "capital expense", they are unallowable as indirect costs, as are donations.

Based on further consideration of additional information subsequently provided by GCCOG showing that the City of Paramount will treat the \$4,000 annual cost as an expense for use of the equipment, A&I accepts that the equipment should be treated as a leasehold improvement, the cost of which should be amortized. Nevertheless, the amount originally budgeted in the 2006/07 ICAP indirect cost pool contained two years of amortization payments, one of which would be an unallowable prior year expense. However, since the GCCOG withdrew its request for approval of the 2006/07 ICAP, and only a single year's amortization payment was budgeted in the 2007/08 ICAP, we consider the issue described in (g) above closed.

Finding 2

The GCCOG treats similar costs inconsistently in like circumstances. Specifically, the labor costs of the same employee (contracted from the City of Bellflower) providing the same services were charged to two different accounts in sequential billing periods. 49 CFR 18.20(b)(1) in part, requires grantees and subgrantees to maintain a financial management system that allows for the accurate, current and complete disclosure of the financial results of activities. Additionally, 49 CFR 18.20(b)(4) requires in part, that actual expenditures must be compared with budgeted amounts for each grant or subgrant. Assigning similar costs to varying accounts will weaken the GCCOG's ability to compare actual expenditures to budgeted amounts and could lead to inaccurate reporting of financial data.

Recommendation

We recommend that the GCCOG establish procedures that will ensure consistent treatment of similar costs in like circumstances.

GCCOG's Response

The GCCOG disagrees with the finding. See Attachment I for GCCOG's complete response.

Analysis of Response

A&I referenced the Code of Federal Regulations because, as stated in our engagement letter dated January 25, 2007, the purpose of our audit was to express an opinion on whether the GCCOG's financial management system was adequate to accumulate and segregate reasonable, allocable, and allowable project costs in accordance with CFR 49, Part 18. Further, in its management representation letter dated February 21, 2007, the GCCOG confirmed that the accounting system used for recording transactions met the requirements set forth in CFR 49, Part 18.

While the GCCOG's budget process may be at a higher account level, the accuracy of transactions recorded at lower account levels should still be of concern, regardless of funding source. The finding and recommendation remain.

Finding 3

The GCCOG does not have a professional services agreement or contract with a Certified Public Accountant (CPA) firm that provides non-audit services. The same CPA firm also performs the financial and single audit of the GCCOG. Non-audit services provided by the CPA firm include assisting the GCCOG in preparing ancillary and variance analysis schedules; determining the value of fund balances; and preparing the GCCOG's ICAP.

The General Standards promulgated by the Comptroller General of the United States set forth in the Generally Accepted Government Auditing Standards provide guidance on Independence Principles. Section 3.02 (January 2007 Revision) states in part, that an audit organization and the individual auditor must be free from impairments to independence, and must avoid the appearance of such impairments. Section 3.28 describes non-audit services that would not impair independence so long as certain safeguards are implemented. Among these non-audit services are providing basic accounting assistance such as preparing draft financial statements; providing appraisal or valuation services limited to services such as reviewing the work of the entity; and preparing an entity's indirect cost proposal. Section 3.30 states in part, that when performing non-audit services described in paragraph 3.28, the audit organization should comply with certain safeguards, including but not limited to, establishing a written understanding with the audited entity regarding the objectives, scope of work, and product or deliverables of the non-audit services. Additionally, 2 CFR 225, Appendix B, #32(b)(8) states in part, that in determining the allowability for professional services, the adequacy of the contractual agreement for that service is relevant. Further, without a professional services agreement or contract identifying the scope and cost of services, the ability to determine the reasonableness and cost-effectiveness for those services is greatly diminished.

The independence of the GCCOG's auditor was questioned in our prior audit report and is summarized in Follow-up Finding 5 of Section I of this report. We recommended that the GCCOG hire a separate Independent Accountant for the GCCOG's annual financial statement and single audit. Our prior audit report also identified the inadequacy of an unrelated consultant contract (summarized in Follow-up Finding 6 of Section I of this report). We recommended in part, that the GCCOG ensure contractual agreements include a description of the services to be provided. Since the GCCOG's 2006 audit was conducted by the same

CPA firm that had provided the non-audit services during that fiscal year and because the GCCOG does not have a consultant contract with the CPA firm, it does not appear that the GCCOG complied with either of our previous recommendations.

Recommendation

We recommend that at a minimum, the GCCOG enter into a professional services agreement with its CPA firm, ensuring that the contract is sufficiently detailed to describe the precise scope of work. We also recommend that the GCCOG review with its CPA firm the Independence Principles set forth in the Generally Accepted Government Auditing Standards (GAGAS) to ensure compliance with the supplemental safeguards relating to auditor independence.

GCCOG's Response

The GCCOG management disagrees that the independence of its audit firm was impaired by providing non-audit services. Further, the GCCOG stated that it did not receive federal financial assistance which would trigger an audit pursuant to GAGAS for fiscal year ended June 30, 2007 and has no signed grant agreements involving the receipt of federal financial assistance in 2007/08 which would trigger an audit under OMB Circular A-133.

The GCCOG acknowledges the need to memorialize the engagement service of its outside CPA firm.

Analysis of Response

The GAGAS are for use by audit organizations performing GAGAS audits and attestation engagements. For fiscal year ended June 30, 2006, the GCCOG's Independent Auditor's Report stated that the audit organization conducted its audit "in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States." The GCCOG's audited Schedule of Expenditures of Federal Awards for the period ended June 30, 2006 showed that the GCCOG's Federal Award Expenditures was \$177,060, which is under the threshold for the required audit under OMB A-133.

Since the GCCOG voluntarily submitted to an audit performed in accordance with GAGAS when it was not required, it was reasonable to assume the GCCOG would undergo a similar audit for the following fiscal year, regardless of the amount of federal financial assistance. However, should the GCCOG elect not to have an audit performed under GAGAS for the fiscal year ended June 30, 2007, then A&I's recommendation to comply with supplemental safeguards would not be required, although still advisable.

Finding 4

Draft Finding 4 was removed from the final audit report, but remains a discussion item.

Finding 5

The GCCOG billed the Southern California Association of Governments (SCAG) for indirect costs without an approved 2006/07 indirect cost rate, although the GCCOG has not actually received reimbursement for the indirect costs. While the GCCOG invoice did note the 2005/06 rate was being used pending approval of the current year rate, the GCCOG billed at a rate that is higher than the one submitted for approval. 2 CFR 225, Appendix E, section A3 states in part, that indirect costs are normally charged to Federal awards by the use of an indirect cost rate. Additionally, according to Local Programs Procedures 04-10, page 5-4,

local agencies must receive approval prior to billing for indirect costs. Billing for indirect costs without an approved rate may lead to an over-recovery of indirect costs.

Recommendation

We recommend that the GCCOG refrain from billing for indirect costs until it has an approved rate.

GCCOG's Response

The GCCOG disagreed with the finding. See Attachment I for GCCOG's complete response.

Analysis of Response

Our audit included a review of the accounting system as of February 9, 2007 and changes in the GCCOG financial management system subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. The finding is included because it is reflective of the system in place at the time of our audit.

A&I disagrees with GCCOG's assertion that the potential for over-recovery of indirect costs is solely in SCAG's hands. Billing for indirect costs at a rate higher than its proposed or approved rate and relying on another entity (SCAG) to make necessary adjustments is a poor internal control practice. Not only will the invoice incorrectly report the amount of indirect costs, there is little assurance that the costs would be correctly adjusted and re-invoiced so that the amount billed and the amount received are reconciled. The finding and recommendation remain.

Finding 6

Labor costs posted to the GL are not consistent with the labor hours recorded on the timesheet. Specifically, for the pay periods ended October 31, 2006 and November 15, 2006, an employee recorded a portion of her time to the Port of Los Angeles (POLA) funding source, but the labor charges were posted to the Mobile Source Reduction Committee (MSRC) fund. Both POLA and MSRC support an air pollution program aimed at replacing older trucks with newer models resulting in lower emissions. The GCCOG staff explained that during this period of time, POLA funding was not available for the activities this employee was working on and therefore, the hours were charged to MSRC. However, the change was not reflected on the timesheet which was signed by the employee, her supervisor and the fiscal department.

49 CFR 18.20(b)(6) requires in part, that accounting records be supported by source documentation such as time and attendance records.

Recommendation

We recommend that corrections to signed and approved timesheets are initialed and the reason for the change is documented.

GCCOG's Response

The GCCOG acknowledged the lack of documentation on the employee's timesheet reflecting the change. The GCCOG management will endeavor to be more vigilant regarding this issue in the future.

Analysis of Response

The GCCOG concurs with A&I's finding and recommendation.

ATTACHMENT I

Barbara,

Below please find the responses of the Gateway Cities COG to the draft audit report of June 22nd.

I was out of the office this morning but did receive your voicemail message. The response to your question about the capital expenditure is included in our response below. Quite simply, the COG does not agree that this is a capital expenditure and our reasons are stated in our response to Finding 1 (g).

With regard to the ICAP for 2006-07, it is based on budget because we do not yet have audited actuals. As you know, government entities may accrue expenses that are attributable to the previous fiscal year for the first 60 days of the new fiscal year. Only now are we closing our books for 06-07 and are arranging for our annual audit. That is also the reason why there is no calculation for a carry forward in the 2007-08 ICAP. You may delete the reference to a carry forward for that purpose. Since we received no federal funding in 06-07 to which an indirect cost rate could be applied, the question may be moot anyway. It would seem that the 2007-08 ICAP could stand on its own without reference to a carry forward. I might add that we are not the recipients of any federal funding in 07-08 either, so the 07-08 ICAP will probably not even be utilized, but would serve as a starting point for future years should the need for an ICAP arise.

Jack

June 22, 2007

Jack Joseph, Deputy Executive Director
Gateway Cities Council of Governments
16401 Paramount Blvd.
Paramount, California 90723

Re: Gateway Cities Council of Governments
Follow-up Audit and
Audit of Indirect Cost Allocation Plan for FY 2006/07
File No: P1190-0629

Dear Mr. Joseph:

We have completed a follow-up audit on the Gateway Cities Council of Governments' (GCCOG) financial management system to determine whether it is adequate to accumulate and segregate reasonable, allocable and allowable project costs. In addition, we have audited the GCCOG's Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2007 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's Local Programs Procedures (LPP) 04-10. The GCCOG management is responsible for the fair presentation of the ICAP. The GCCOG proposed an indirect cost rate of 115.76% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the GCCOG. Therefore, we did not audit and are not expressing an opinion on the GCCOG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the GCCOG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of the GCCOG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the data and records tested, to assess the allowability, allocability and reasonableness of costs. The audit also consisted of a review of the accounting system, a recalculation of the ICAP, a comparison of the ICAP to approved budget figures, a review of single audit reports for the fiscal years ended June 30, 2005 and 2006, and inquiries of GCCOG personnel, as of February 9, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration the GCCOG's response dated _____ to our draft report. Our findings and recommendations, a summary of the GCCOG's response and our analysis of the response are detailed below. See Attachment I for a copy of the GCCOG's response.

AUDIT RESULTS

Based on audit work performed, the GCCOG's ICAP for the fiscal year ended June 30, 2007 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is xx% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates. However, through the course of our audit work, we identified a number of weaknesses in the GCCOG's accounting and internal control system that requires attention. These weaknesses are summarized in the findings below.

Audit Findings

Finding 1

Direct, indirect and excluded costs are not consistently segregated despite the accounting system's capability to do so. Specifically, of the 39 sampled transactions, we found 20 instances where the costs were coded and posted to the accounting system as indirect instead of either direct or excluded costs. The specific instances and relevant regulation citations are enumerated below.

a) Media consultant providing public relations services (2 instances); OMB A-87, Attachment B, #1d states, in part, that allowable public relations costs are those generally associated with specific awards or activities necessary as part of a Federal award. Costs that are specific to Federal awards should be charged directly and not included in the indirect cost pool.

b) Special assistant on loan from the City of Bellflower working on Metropolitan Transportation Authority grants (2 instances); Accounting services rendered in connection with specific grants (1 instance); Engineering services rendered in connection with specific projects (2 instances); Printing costs for field reports associated with specific projects (1 instance); OMB A-87, Attachment A, section E1 defines direct costs as those that can be identified with a particular final cost objective. Costs incurred in connection with specific projects should be charged directly and excluded from the indirect cost pool.

c) Various food items provided at an informational staff meeting (1 instance); OMB A-87, Attachment B, #27 states in part, that the cost of meals is allowable for meetings where the primary purpose is the dissemination of technical information. The primary purpose of informational staff meeting is not the dissemination of technical information and the cost of meals provided at such meetings are unallowable.

d) Legal services rendered in connection with specific grants and/or Board-related matters (5 instances); and Travel costs associated with a specific project and travel costs of the Executive Director and/or Board members (2 instances); OMB A-87, Attachment A, section E1 defines direct costs as those that can be identified with a particular final cost objective. Additionally, Attachment B, #19(a) states in part, that expenses of a local governmental body are unallowable. The legal services provided in connection with particular grants and travel costs incurred in connection with a specific project should be charged directly. The legal services provided in connection with Board-related matters and the travel costs of the Executive Director and Board members should be excluded from the indirect pool.

e) Recording and timing materials used in connection with Board meetings (2 instances); OMB A-87, Attachment B, #19(a)(2) states in part, that expenses of a local governmental body are unallowable. Materials used for Board-related meetings are unallowable costs and should be excluded.

f) Travel costs for a non-GCCOG employee (1 instance); OMB A-87, Attachment B, #12(a) states in part, that donations made by the governmental unit, regardless of the recipient, are unallowable. Covering the travel costs of a non-employee is considered a donation and is unallowable.

g) Equipment used in connection with Board meetings (1 instance); OMB A-87, Attachment B, #15(b)(5) states in part, that equipment and other capital expenditures are unallowable as indirect costs. Additionally, Attachment B, #19(a)(2) states in part, that expenses of a local governmental body are unallowable. If allowable, equipment should be excluded from the indirect pool, but depreciation or use allowance may be charged indirectly. Equipment used in connection with Board-related activities are unallowable and should be excluded.

In addition to the above-mentioned costs, we also found that one labor cost pool included both direct and indirect costs. The GCCOG is funded primarily by dues paid by all its member cities, but it also receives additional monetary contributions from its member cities that are affected by the I-710 project. These additional funds are tracked under fund account code 005 and may be used to pay general overhead costs, including labor. However, the labor charged under the 005 fund contains both direct and indirect costs, but the costs were entirely coded as indirect. OMB A-87, Attachment E, section A1,

states in part, that a cost may not be allocated to a Federal award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to a Federal award as a direct cost. Direct and indirect labor must be segregated and charged accordingly.

Similar circumstances as these were cited as findings in our initial audit report dated October 31, 2005. We recommended that the GCCOG establish procedures to ensure accurate and consistent segregation of direct and indirect costs. It appears that appropriate procedures have not been implemented. We believe that these exceptions occur in large part because there is little independent and timely oversight of the GCCOG's accounting practices. The GCCOG is a small organization with inadequate segregation of duties. The same staff person responsible for coding invoices is also responsible for conducting periodic reviews of the expenditure report to identify and correct coding errors. However, adequate segregation of duties between performance and review of a task is a key internal control activity.

Recommendation

We again recommend that the GCCOG establish procedures to ensure the accurate and consistent segregation of direct, indirect and excluded costs. Title 49 of the Code of Federal Regulations (49 CFR), Part 18.12(a)(3) states, in part, that a grantee or subgrantee may be considered "high risk" if the awarding agency determines that the grantee or subgrantee does not have a management system that meets the standards set forth in this part. The ability to consistently and accurately segregate direct, indirect and unallowed costs is a key component of an adequate financial management system. Failing this, risk increases.

GCCOG's Response

The GCCOG's management agrees in substance with the findings noted in Items A through F above. However, it should be noted that in some instances items referenced above were coded consistent with the nature of the costs identified in the 2005/06 approved ICAP.

Additionally, the labor cost pool noted above contained six of the GCCOG's personnel. Two individuals contained therein have job activities almost exclusively indirect in nature. However, CalTrans audit personnel required a re-characterization of all labor costs in Fund 005 as direct. In as much, an amended ICAP was submitted for the 2006/07 fiscal year. The labor costs tested which led to the finding were consistent with the originally submitted ICAP for 2006/07 fiscal year.

In response to Finding G, OMB Circular A-87, Attachment A- General Principles for Determining Allowable Costs, Section C - Basic Guidelines, Item 1- Factors affecting allowability of costs, Sub-item g states that costs, "except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles"

The Governmental Accounting Standards Board requires a unit of local government such as the GCCOG to record ownership of its fixed assets regardless of source of funding or method of acquisition with the following exceptions:

- Equipment acquired through sponsored projects where the federal government or other sponsor retains title to the equipment or where the sponsor furnishes equipment merely for the duration of the project;
- Equipment on short-term loan from another institution;
- Leased equipment not meeting the definition of a capital lease;

The item in question is audio-visual equipment, affixed to real property, in a building owned by the city of Paramount. The GCCOG maintains an operating lease with the city of Paramount for the use of office space, for a term of one year, with annual renewal available. As an accommodation, the City of Paramount procured, paid for, and installed the equipment. It sought to recover the tenant improvement through annual installments of \$5,000. Repayment was structured this way in order to avoid amending the lease agreement.

To the GCCOG, the equipment is not "an article of nonexpendable, tangible personal property having a useful life of more than one year" as required by the referenced circular. It is an improvement of real property by its landlord and is treated as a rent escalation more akin to the recovery of common area maintenance costs common in office leasing.

All the aforementioned was communicated to Caltrans audit personnel via email on May 23, 2007. Contained therein was a request to cite the authoritative generally accepted accounting principles relied upon in order to determine the asset required capitalization, as required by OMB A-87. Caltrans personnel did not provide the citation in their follow-up to the email. Their response did indicate the transaction could be considered a donation to the city of Paramount. It appears no audit inquiries were performed of the city of Paramount personnel regarding the underlying facts supporting the transaction, as required by auditing standards.

Government Auditing Standards Section 8.43 states in part that: "Accuracy requires that the evidence presented be true and that findings be correctly portrayed". Furthermore, Section 8.44 states in part that: "The report should include only information, findings, and conclusions that are supported by sufficient, competent, and relevant evidence in the audit documentation." The finding is not consistent with the underlying facts and circumstances supporting the transaction and appears inconsistent with the aforementioned auditing standards.

Analysis of Response

Finding 2

The GCCOG treats similar costs inconsistently in like circumstances. Specifically, the labor costs of the same employee (contracted from the City of Bellflower) providing the same services were charged to two different accounts in sequential billing periods. 49 CFR 18.20(b)(1) in part, requires grantees and subgrantees to maintain a financial management system that allows for the accurate, current and complete disclosure of the financial results of activities. Additionally, 49 CFR 18.20(b)(4) requires in part, that actual expenditures must be compared with budgeted amounts for each grant or subgrant. Assigning similar costs to varying accounts will weaken the GCCOG's ability to compare actual expenditures to budgeted amounts and could lead to inaccurate reporting of financial data.

Recommendation

We recommend that the GCCOG establish procedures that will ensure consistent treatment of similar costs in like circumstances.

GCCOG's Response

The actual account coding was as follows:

Account	Dollar	Date
<u>Number</u>	<u>Amount</u>	<u>Posted</u>
001-2000-5066	\$38,098.00	08-28-2006
001-2000-5067	\$28,254.19	10-12-2006
001-2000-5067	\$31,441.12	10-24-2006
001-2000-5066	\$31,216.48	01-18-2007

As can be seen from the above table, fund designation and cost category did not change. A one digit difference exists in coding between subsidiary expenditure accounts for the master Contract Services object code (5060). That is to say, account 5066 and 5067 are expenditure accounts for separate contracted employees. However, the GCCOG budget process is at the master account level for Contractual Labor. The General Fund receives no federal financial assistance, so reference to 49 CFR 18.20(b)(4) is arguable.

Furthermore, 49 CFR 18.20(b)(1) states that grantees and subgrantees must meet the following standard applicable to financial reporting: "accurate, current and complete disclosure of the financial results of activities must be made in accordance with the financial reporting requirements of the grant or subgrant." As indicated in the GCCOG's response to Finding 5 herein, its only source of federal financial assistance was cancelled prior to the dating of the auditor's report, making the inclusion of this finding and reference to the Code of Federal Regulations curious.

The miscoding of the cost nature of the expenditure as indirect, when in fact direct, is addressed in Finding 1(b).

Analysis of Response

Finding 3

The GCCOG does not have a professional services agreement or contract with a Certified Public Account (CPA) firm that provides non-audit services. The same CPA firm also performs the financial and single audit of the GCCOG. Non-audit services provided by the CPA firm include assisting the GCCOG in preparing ancillary and variance analysis schedules; determining the value of fund balances; and preparing the GCCOG's ICAP.

The General Standards promulgated by the Comptroller General of the United States set forth in the Generally Accepted Government Auditing Standards provide guidance on Independence Principles. Section 3.02 states in part, that an audit organization and the individual auditor must be free from impairments to independence, and must avoid the appearance of such impairments. Section 3.28 describes non-audit services that would not impair independence so long as certain safeguards are implemented. Among these non-audit services are providing basic accounting assistance such as preparing draft financial statements; providing appraisal or valuation services limited to services such as reviewing the work of the entity; and preparing an entity's indirect cost proposal. Section 3.30 states in part, that when performing non-audit services described in paragraph 3.28, the audit organization should comply with certain safeguards, including but not limited to, establishing a written understanding with the audited entity regarding the objectives, scope of work, and product or deliverables of the non-audit services. Additionally, OMB A-87, Attachment B, #32(b)(8) states in part, that in determining the allowability for professional services, the adequacy of the contractual agreement for that service is relevant. Further, without a professional services agreement or contract identifying the scope and cost of services, the ability to determine the reasonableness and cost-effectiveness for those services is greatly diminished.

The independence of the GCCOG's auditor was questioned in our audit report dated October 31, 2005. We recommended that the GCCOG hire a separate Independent Accountant for the GCCOG's annual financial statement and single audit. Our audit report also identified the inadequacy of an unrelated consultant contract. We recommended in part, that the GCCOG ensure contractual agreements include a description of the services to be provided. Since the GCCOG's 2006 audit was conducted by the same CPA firm that had provided the non-audit services during that fiscal year and because the GCCOG does not have a consultant contract with the CPA firm, it does not appear that the GCCOG complied with either of our recommendations.

Recommendation

We recommend that at a minimum, the GCCOG enter into a professional services

agreement with its CPA firm, ensuring that the contract is sufficiently detailed to describe the precise scope of work. We also recommend that the GCCOG review with its CPA firm the Independence Principles set forth in the Generally Accepted Government Auditing Standards to ensure compliance with the supplemental safeguards relating to auditor independence.

GCCOG's Response

After a review of the Government Auditing Standards- Answers to Independence, issued by the Standard Questions, issued by the Comptroller General of the United States, the GCCOG's management disagrees with the assertion that the independence of its audit firm has been impaired by providing non-audit services. Furthermore, GCCOG did not receive any federal financial assistance which would trigger an audit pursuant to GAGAS for the year ended June 30, 2007. Additionally, it has no signed grant agreements involving the receipt of federal financial assistance in the 2007/08 fiscal year which would trigger an audit under OMB Circular A-133.

However, the GCCOG does acknowledge the need to memorialize the engagement service of its outside CPA firm.

Analysis of Response

Finding 4

Due to an interfacing problem between the payroll and general ledger module of the GCCOG's accounting system the distribution of labor costs among funds was posted in error in 7 of 12 pay periods. Once the problem was identified and addressed, numerous adjustments were required so that the correct labor distribution would be reflected in the general ledger. However, we found three instances where the adjustment was either not posted or posted in the wrong amount. Specifically, for the pay period ended 10/31/06, adjustments of \$216.90 and \$186.57 were required for funds 017 and 019, respectively. However, the actual amount posted to fund 017 was \$714.52. No adjustment was made to fund 019. For the pay period ended 12/15/06, an adjustment of \$775.47 was required for fund 011. The actual amount posted to fund 011 was \$312.63.

We believe these exceptions occurred because weak internal controls caused an inability or unwillingness to detect and correct errors in a timely fashion.

49 CFR 18.20(b)(1) requires in part, grantees' and subgrantees' financial management systems to provide for the accurate, current and complete disclosure of financially assisted activities. Failing to properly record labor costs to the correct funding source can lead to inaccurate reporting.

Recommendation

We recommend that the GCCOG establish procedures to ensure costs are accurately recorded on the GL.

GCCOG's Response

GCCOG management believes the finding does provide an accurate portrayal of the condition, cause, and effect as required by reporting standards for performance audits contained within Government Auditing Standards (Revision 2003), issued by the Comptroller General of the United States of America.

Moreover, the finding should be presented in a manner to promote convincing, but fair, presentations in proper perspective as required by Section 8.13 of the Government Auditing Standards. Attribution of causation due to an "inability or unwillingness" as stated in the finding is clearly inconsistent with the aforementioned standard regarding objectivity.

To be specific, the interface between accounting modules requires a labor distribution allocation to be updated per employee, each payroll period, in order to post to the general ledger the actual costs incurred. In so doing, the payroll module retains all pertinent information in report format. GCCOG retains all employee timesheets supporting the allocation.

With regard to the finding, GCCOG staff experienced an error message when posting payroll information to the general ledger for the payroll period ended August 31, 2006. Payroll was computed for four of the six individuals working at GCCOG; the other two are on loan from other units of local government. This error reoccurred again during the last six payroll periods of calendar 2006.

The GCCOG staff contacted technical staff from the software company. In so doing, they were instructed to perform a series of diagnostic procedures. All this consumed time, given the limited number of personnel at GCCOG. Ultimately, it was determined that an incomplete distribution code relating to the cost nature of a specific employee was missing. This prevented the posting process.

Upon correcting the error, GCCOG staff posted all affected payrolls. It was thought the payroll module retained the original labor distribution input for each affected payroll period at the time of calculation. This was not the case. Only the most recently updated distribution was utilized. As result, all affected payroll periods posted under the labor distribution for the payroll period ended January 15, 2007. The posting took place in the second week of January. The error was immediately corrected through journal entry.

Lastly, 55 entries were posted to correct the error. Total labor expense for the seven affected payroll periods was \$101,448.62. The coding error noted resulted in the following:

Over	Total	Percentage
------	-------	------------

Fund	(under)	Labor	of
<u>Number</u>	<u>Reported</u>	<u>Expenditure</u>	<u>Variance</u>
Fund #19	(\$186.57)	\$ 604.47	30.86%
Fund #17	\$497.62	\$19,377.71	2.57%
Fund #11	(\$462.84)	\$ 9,871.21	4.68%

In summary, the net error results in an overstatement of \$149.79, for a variance of 0.148%. Given the aforementioned, it appears the finding does not rise to the level of a significant deficiency of the GCCOG's internal control. The finding states that attribution of causation is due to an "inability or unwillingness" on the part of GCCOG's management to detect and correct errors in a timely fashion. Government Auditing Standards state "accuracy requires that the evidence presented be true and that findings be correctly portrayed". It further indicates there be "fair presentation in proper prospective". GCCOG does not believe the finding met these standards.

Analysis of Response

Finding 5

The GCCOG billed the Southern California Association of Governments (SCAG) for indirect costs without an approved indirect cost rate, although the GCCOG has not actually received reimbursement for the indirect costs. Additionally, the GCCOG billed at a rate that is higher than the one subject to approval. OMB A-87 Attachment E, section A3 states in part, that indirect costs are normally charged to Federal awards by the use of an indirect cost rate. Billing for indirect costs without an approved rate may lead to an over-recovery of indirect costs.

Recommendation

We recommend that the GCCOG refrain from billing for indirect costs until it has an approved rate.

GCCOG's Response

Government Auditing Standards (Revision 2003), Section 8.41, issued by the Comptroller General of the United States of America states "... the report contain all evidence needed to satisfy the audit objectives and promote an adequate and correct understanding of the matters reported. It also means the report states information and findings completely, including all necessary facts and explanations. Giving report users an adequate and correct understanding means providing perspective on the extent and

significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested and the relationship of the findings to the entity's operations".

Additionally, audit reports should not be dated until sufficient and appropriate evidence to support the opinion is obtained. This means that documentation should have been reviewed by an appropriate level of management, findings should have been prepared, and a management representation letter should have been signed.

In as much, a copy of the invoice in question was provided to Caltrans. Clearly noted on the invoice is a footnote regarding the indirect cost rate utilized was based on the 2005/06 approved ICAP and that the rate for the current year was pending approval. GCCOG staff indicated that the format used for this invoice was done at the direction of SCAG staff, and is consistent with the format used in prior years. SCAG's practice has been to withhold payment on the portion of an invoice attributable to indirect costs pending approval of the ICAP rate. Any differential in rates would be adjusted by SCAG. The ability of the GCCOG to over-recover indirect costs as suggested by the audit finding is solely in the hands of SCAG – a Caltrans grant subrecipient.

Furthermore, GCCOG staff responded to several questions from Caltrans audit personnel regarding the second quarter SCAG invoice. There were fifteen emails from Caltrans audit personnel to GCCOG staff between February 15, 2007, and May 23, 2007. Several of these involved questions regarding the SCAG invoice. The final email from the GCCOG on the matter was sent on May 23, 2007, stating "we have cancelled the project and are rescinding the invoice". This occurred prior to the dating of the audit report and the preparation of the draft of the audit report for management review.

The GCCOG's management is curious why this finding has been included in herein given the invoice revision and the contract cancellation occurred prior to the dating of the audit report. This appears to be in conflict with auditing standards. Any internal control deficiencies are clearly inconsequential or moot considering both qualitative and quantitative factors.

Analysis of Response

Finding 6

Labor costs posted to the GL are not consistent with the labor hours recorded on the timesheet. Specifically, for the pay periods ended 10/31/06 and 11/15/06, an employee recorded a portion of her time to the Port of Los Angeles (POLA) funding source, but the labor charges were posted to the Mobile Source Reduction Committee (MSRC) fund. Both POLA and MSRC support an air pollution program aimed at replacing older trucks with newer models resulting in lower emissions. The GCCOG staff explained that during this period of time, POLA funding was not available for the activities this employee was working on and therefore the hours were charged to MSRC. However, the change was

not reflected on the timesheet, which was signed by the employee, her supervisor and the fiscal department.

49 CFR 18.20(b) (6) requires in part, that accounting records be supported by source documentation such as time and attendance records.

Recommendation

We recommend that corrections to signed and approved timesheets are initialed and the reason for the change is documented.

GCCOG's Response

GCCOG acknowledges the lack of documentation on the employee's timesheet reflecting the change in direct labor allocation in its General Ledger. Management will endeavor to be more vigilant with regard to this issue in the future.

Analysis of Response

This report is intended solely for the information of the GCCOG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plan for your files. Copies were sent to the Department's District 07, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Barbara Nolan at (916) 323-7880.

MARYANN CAMPBELL-SMITH
Chief External Audits

c: Kirk Cessna, District 7
Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting

2004 CT allowed									
(medicare)									
11.47%									
Employee	Hours	Hourly rate	Allowed labor	Fringe	total allowed	match required	reimburseable amt	Amt SCAG paid	Amt GCCOG paid in match
Powers	464.00	63.14	29,296.96	1552.11	30,849.07				
Chankin	165.00	40.00	6,600.00	95.70	6,695.70				
Humphrey	540.75	60.00	32,445.00	470.45	32,915.45				
Cisneros	200.00	30.28	6,056.00	87.81	6,143.81				
Dilorio	11.75	15.00	176.25	2.56	178.81				
			76,782.84	8,806.99	67,975.85	79,645.46	8,835.63	70,809.83	2,833.98

GRAND TOTAL OVERPAYMENT

2004	2,833.98
2005	29,063.32
2006	1,585.07
total owed	33,482.37

2005 CT allowed									
(medicare)									
11.47%									
Employee	Hours	Hourly rate	direct labor	PTO	allowed labor	Fringe	total allowed	match required	reimburseable amt
Powers	553.7	65.03	36,007.11	4,490.09	40,497.20	1,847.51	42,344.70		
Chankin	0	45.78	-	-	-	-	-		
Humphrey	24.25	60.00	1,455.00	-	1,455.00	21.10	1,476.10		
Cisneros	0	31.19	-	-	-	-	-		
Dilorio	20	15.45	309.00	-	309.00	4.48	313.48		
Joseph	103	52.38	5,395.14	-	5,395.14	1,948.78	7,343.92		
			add non-labor costs		51,478.20				
			grand total		56,157.47	6,441.26	49,716.21	95,984.53	17,205.00
								78,779.53	29,063.32

Note: Powers includes auto allowance
 Note: Joseph includes add'l benefits other than medicare
 Note: Only Powers PTO calculation provided

2006 CT allowed									
(medicare)									
11.47%									
Employee	hours	hourly rate	direct labor	PTO rate	PTO	allowed labor	fringe	total allowed	match required
Powers	612.50	67.63	41,423.38	15.56%	6,445.48	47,868.85	694.10	48,562.95	
Cisneros	383.00	31.19	11,945.77	19.28%	2,303.14	14,248.91	206.61	14,455.52	
Thompson	377.50	20.00	7,550.00	6.96%	525.48	8,075.48	117.09	8,192.57	
Joseph	125.50	55.53	6,969.02	n/a	n/a	6,969.02	2,769.44	9,738.46	
Chankin	94.50	51.50	4,866.75	13.21%	642.90	5,509.65	79.89	5,589.54	
Humphrey	2.50	60.00	150.00	0.00%	-	150.00	2.18	152.18	
Mason	369.00	60.00	22,140.00	0.00%	-	22,140.00	321.03	22,461.03	
							109,152.25	198,209.56	22,734.64
							89,057.32	175,474.93	177,060.00
									1,585.07

Note: Auto allowance included in indirect rate
 Note: Joseph includes add'l benefits, but did not charge PTO
 Note: no PTO calculation provided for Mason or Humphrey